QUESTIONS AND ANSWERS

on

FEDERAL MILK MARKETING ORDERS

UNITED STATES DEPARTMENT OF AGRICULTURE
U. S. Production and Marketing Administration
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Federal orders now are operating in 37 fluid milk markets in the United States. During 1949 they regulated the handling of 16 billion pounds of milk produced by 140 thousand dairy farmers for more than 21 million consumers. To answer the numerous requests for information on these programs, the following questions and answers have been prepared. They explain how Federal orders are established and how they operate.

INTRODUCTION - Fluid milk (chiefly milk used for bottling) flows from dairy farmer to consumer through a vast channel work of modern production, processing, and distribution. The marketing system on which this flow of milk depends is fast and highly organized. On a daily schedule, fresh milk streams from farms through local and regional dairies and creameries, through handlers and distributors, along city and rural delivery routes to reach a multitude of consumers whose appetites also operate on a daily schedule.

Because this stream of milk cannot easily be turned on and off to fit the supply of milk to the demand, the marketing system often runs into trouble with milk prices. At times, market conditions can result in wildly fluctuating prices which work unnecessary hardship both on those who depend on milk for a living and those who depend on it for food.

Federal orders are used to stabilize market conditions for fluid milk - to make the buying and selling of fluid milk an orderly process on which dairy farmers, milk dealers and consumers alike can depend. To understand how Federal orders contribute to market stabilization, it is helpful to take a look at the conditions which brought them into being.

BACKGROUND INFORMATION - The need for Federal orders - and their development - is the result of a serious problem of pricing fluid milk which grew out of modern marketing methods.

Before modern methods were introduced, farmers delivered milk to homes in the nearby town. The matter of a "reasonable price" was settled through simple agreements between farmers and their customers. But as marketing methods became more modern, farmers became separated from consumers by distributors and wholesalers who set prices for both farmers and consumers.

The effect of this change was not only to put farmers in a more difficult bargaining position but also to make the pricing of milk to farmers subject to serious new elements of instability.

Farmers observed that prices became unstable chiefly because of surplus supplies. Yet they also observed that some surplus milk is quite necessary to any well-supplied market. A market with adequate supplies requires a daily surplus or reserve during the low production season of 10 to 15 percent above average daily sales in order to take care of daily fluctuations in demand. This is because milk for fluid purposes is highly perishable and cannot be held over from day to day. Because production varies widely from season to season, this reserve necessarily will be greater during the season of high production.

Farmers find that the presence of surplus milk in a highly organized, highly competitive market tends to result in lower prices and eventually in lower production. Yet, when reserve supplies dwindle, temporary shortages result with upward pressures on prices.

Under this situation of price instability, farmers in many markets during past years found themselves virtually powerless to prevent unreasonable and harmful price manipulation. Dealers, driven by sharply competitive conditions,

often engaged in "price wars," the losses being passed back to farmers in the form of lower prices. Final losses, of course, were passed back to consumers in the form of higher prices when farm milk supplies declined.

As early as 1900, erratic and widly fluctuating prices had become a serious and characteristic problem of fluid milk markets. Following World War I, many farmers formed cooperatives in an effort to stabilize prices through collective bargaining with handlers. But these bargaining arrangements frequently were disrupted by a minority of dairy farmers and dealers who continued to trade in milk without regard to the bargaining agreements entered into by the majority.

When the depression of the early 1930's broke down most bargaining arrangements and caused farm milk prices to collapse, farmers turned to Government for help. Local and State regulatory agencies were established in all parts of the Nation and were effective in stabilizing prices. But only Federal authority was broad enough in scope to regulate markets where part of the milk entered into interstate commerce.

Federal authority to regulate the handling of milk was first provided in the Agricultural Adjustment Act of 1933. The Federal orders of today, however, are based on the Agricultural Marketing Agreement Act of 1937, which sets out in detail the authority granted earlier.

Under this authority the Secretary of Agriculture is empowered to help stabilize market conditions by issuing <u>Federal orders</u> (regulations enforcable by law) which apply to handlers of milk and its products. He also is empowered to enter into <u>marketing agreements</u> with processors, producers, associations of producers and others engaged in the handling of milk as a further instrument of market stabilization. Marketing agreements, however, are rarely issued. The explanations in the following questions and answers relate generally to Federal orders rather than to marketing agreements.

1. What is a Federal milk marketing order?

It is a regulation issued by the Secretary of Agriculture which places certain requirements on the handling of milk in the area for which it is issued:

a. It requires that dairy farmers regularly supplying the market be paid not less than certain minimum prices established in accordance with the way or form in which the milk is sold. These prices are established under the order after a public hearing and may be made effective if approved by dairy farmers.

b. It requires that payments for milk be pooled and paid out to individual farmers on the basis of a uniform or average price.

2. What are the objectives of a Federal order?

Federal orders seek to stabilize market conditions and do away with those particular characteristics of unregulated markets (described on Page 2) which are both harmful and unnecessary.

Thus Federal orders operate to (a) assure farmers of steady, dependable markets and prices for their milk which are reasonable in relation to economic conditions and (b) assure consumers at all times of adequate supplies of pure and wholesome milk.

They operate to correct conditions of price instability and needless fluctuations in price which (a) give unwarranted "stop" and "go" signals to production, (b) result in unnecessarily depressed prices to farmers that do not properly reflect supply and demand conditions, and (c) jeopardize the quality of the milk and the dependability of its supply.

3. How does a Federal order attain its objectives?

It bolsters market conditions with a legal framework of rules and procedures on which orderly marketing activities can be based to the benefit of all parties concerned. These rules and procedures serve to:

a. Give farmers, milk handlers and the public an active voice in determining minimum farm milk prices through a procedure of public hearing.

b. Establish minimum farm milk prices that (1) assure farmers as much for their milk as general supply and demand conditions in the market warrant, and (2) assure the market of adequate supplies of milk.

c. Give the role of final judge in resolving issues discussed in public milk hearings to the Secretary of Agriculture who, with the help of economists and marketing specialists, can evaluate the evidence and render decisions in the public interest.

d. Provide for the orderly marketing of surplus milk through (1) a pricing method based on the uses in which milk is sold, and (2) a payment method by which farmers are assured uniform prices for the milk they deliver (a) to the market or (b) to individual dealers in the market.

e. Reduce the danger of unwarranted and harmful manipulation of prices paid to farmers.

f. Assure farmers of accurate weighing, testing, classification, and accounting for milk.

g. Make available information on the handling of milk in the marketing area so as to enable interested parties to evaluate the market situation.

4. Who administers the order?

A market administrator appointed by the Secretary of Agriculture administers the order. He is helped by a staff of accountants, clerical personnel and statisticians.

5. What kind of milk is covered by Federal orders?

Federal orders are primarily instruments for stabilizing marketing conditions for "fluid milk" in city markets and for this reason they apply to milk which is produced under local sanitary inspection for sale in whole fluid form in such markets. Such milk is often known as "approved" milk.

Local health regulations largely determine for each market the uses of milk which require "approved" supplies. In some markets this category consists only of milk for bottling purposes. In other markets additional uses are included, such as flavored milk drinks, fluid cream, and ice cream.

6. Who is regulated by an order?

Milk handlers are the only persons regulated. They usually are defined as anyone who purchases "approved" milk from dairy farmers for the purpose of selling it in the marketing area.

The order requires only that when a milk handler operating under the order purchases milk from a dairy farmer he pay at least the minimum price, make accurate weights and tests, and account properly for the way the milk is used.

The order does not control from whom he shall buy, to whom he shall sell, how much he should buy or sell, or at what prices he may sell.

7. Are dairy farmers controlled in any way?

No. They may produce and sell any amount of milk under a Federal order. So far as the order is concerned, any dairy farmer who can find a handler in the market to purchase his milk is entitled to the benefits of the order.

8. How is milk priced under an order?

It is priced under a classified price plan. This plan (1) divides milk received by handlers into classes according to the use they make of the milk, and (2) provides an appropriate minimum price to be charged to dealers for milk in each class.

Thus a handler pays one price for the milk which he sells for consumption in whole fluid form and a lower price for the surplus fluid milk which he sells in other uses. By pricing surplus milk separately, the classified price plan prevents reasonable surpluses from depressing the price of local farm milk to the point where the market's supply of milk may become endangered.

The classified price plan recognizes that it is more costly to produce and market milk for sale in a city market for fluid uses than it is is to produce milk primarily for manufacture into such products as butter, cheese, and evaporated milk. This is true because (1) additional expenditures must be made on milk for city markets in order to comply with the rigid sanitary standards which apply to such milk and (2) milk for city markets must be transported in whole fluid form over relatively long distances on a very rapid daily schedule.

The plan also recognizes that despite such additional expenditures, all the milk produced for a city market will not be sold for consumption in fluid form. As pointed out on Page 2, a well-supplied market requires a daily reserve supply of fluid milk to take care of daily fluctuations in demand. Any excess above market daily needs under the classified price plan is converted into manufactured dairy products so as not to be wasted. This milk is given a lower price commensurate with its value when utilized in manufactured dairy products.

In so doing, the classified price plan succeeds in marketing surplus fluid milk in orderly fashion so that reasonable milk surpluses are prevented from unnecessarily depressing the price of fluid milk in the market.

In general, milk sold for consumption in fluid form which is subject to local sanitary standards is placed in one class. This class may include fluid milk, fluid cream and certain byproducts such as flavored milk drinks, depending upon the scope of local sanitary regulations. Milk in this class receives the highest price in the market, the price being commensurate with the cost of producing and marketing this milk.

Milk delivered to the market in excess of sales in the highest priced class is placed in a separate and lower priced class. The price of this milk is at a level commensurate with its value when converted into manufactured dairy products. Unless such a lower price is provided, milk in excess of fluid needs would not readily be disposed of in the market. The presence of milk without a market is a highly unstabilizing influence on milk prices.

This is the general outline of a classified price plan. The specific provision of the plan used in individual markets may differ in various ways because of differences in the way that local sanitary standards apply to the uses of milk and differences in the possibilities of economizing upon transportation costs.

9. How are specific price levels determined?

The Agricultural Marketing Agreement Act requires that minimum farm prices for milk be established at levels which will (1) reasonably reflect economic conditions affecting the supply and demand for milk (such as the price and availability of feeds), (2) assure an adequate supply of pure and wholesome milk for the market, and (3) be in the public interest. In short, the act requires the fixing of prices which will equate the supply of milk with the demand for milk in each regulated marketing area after making provisions for necessary reserve supplies.

The price levels generally are set by means of price formulas which allow the minimum prices to change automatically along with certain changes in the market conditions for fluid milk. This is done because conditions which affect milk prices change frequently and rapidly. Every season of the year brings substantial changes which would soon render a fixed, flat price out of date.

These formulas are of two general types. In the New England, New York, and New Orleans markets formulas for fluid milk prices are based on general economic factors. As an example, in the New England markets these factors relate the milk price to certain costs of production, to changes in department store sales, and to changes in the general level of wholesale prices of nearly 900 commodities. In all these markets milk prices are further modified by some form of a supply-demand adjustment which has been developed to obtain a proper relationship to sales should supplies become "long" or run "short."

In Midwest markets the "basic price" type of formula is used. Formulas of this type base the price for Class I milk on the value of milk for manufacturing purposes. Specified differentials designed to account for the additional cost of producing inspected milk and the other special economic conditions which influence prices for milk in city markets are added to the manufacturing milk price. These added differentials are designed to equate the supply of inspected milk in the regulated market with the demand for it in that market.

Prices for milk used in classes other than Class I also are fixed on a formula basis which relates the price for each use of milk to market prices for manufactured dairy products or to prices paid at dairy manufacturing plants for milk used in manufacturing.

10. How is the uniform price to farmers computed?

To compute the uniform price, the market administrator gets information from handlers at the end of each delivery period (usually 1 month in length) telling how much milk they handled during the period and how much was employed in each use of milk. From this the administrator can determine how much of the total milk brought into the market belongs in each class.

The administrator multiplies the minimum price for each class by the amount of milk in that class, to get the total value of milk in each class. The total value of milk for individual classes is added to get the total value for all milk marketed during the period. The total value for all milk is divided by the total pounds of milk received from dairy farmers to obtain the average or pool price of milk for the market. Milk handlers then are required to pay not less than this uniform pool price for all the milk they have received from each farmer.

The uniform price may be computed separately for each handler or it may be computed for all of the handlers in the market depending on whether the market has individual handler pools or a market-wide pool. (See question 22 (f) and (g).)

11. How are farmers paid under an order?

Farmers receive their checks once or twice monthly, generally from milk handlers. Under Federal orders payment may not be less than the uniform price or average price as announced each month by the milk market administrator.

12. Has the legality of orders ever been tested?

Yes. The Marketing Agreement Act of 1937 and the orders issued under it have been tested in the courts many times. In several cases the Supreme Court of the United States very thoroughly reviewed the Agricultural Marketing Agreement Act and Federal orders issued under that authority. The court gave its approval to the law and to such orders.

Individual provisions of orders and procedures taken under the authority of orders have been reviewed many times by the courts since then. The constitutional powers of the Federal Government to regulate the handling of milk which is in the current of interstate commerce or which burdens, obstructs, or affects interstate commerce in milk is clearly established.

13. How are Federal orders enforced?

Legal action may be instituted through the Justice Department in the Federal courts to compel milk dealers to comply with a Federal order.

If a market administrator discovers that a milk dealer is not complying with the terms of the order, he informs the dealer of this fact and requests him to make the necessary corrections. If the milk dealer complies with the request promptly and makes restitution of any amounts unpaid to dairy farmers, the matter is terminated at that point.

If, however, the violation is not rectified promptly, the market administrator may inform the Department of Agriculture. This step leads to legal action.

Most noncompliance with Federal orders is the result of inadvertent errors on the part of milk handlers. Few legal actions to enforce compliance with orders have been carried out.

14. How are the operating costs defrayed?

Milk handlers are assessed in accordance with the quantity of milk they receive or handle. The amount of the assessment varies under different orders and at different times. Generally it ranges from 2 to 4 cents per hundredweight of the milk received by the handler from producers.

15. Is a Federal order a substitute for producer cooperatives?

No. A producer cooperative continues to perform all of its functions under a Federal order. At public hearings the cooperative presents the reasons and factual information which it believes will justify any change in prices or other terms of sale which it proposes.

Whenever the cooperative performs any of the physical functions connected with marketing, it will continue to perform these functions in the same manner as before the regulation.

Inasmuch as orders are a mechanism for market stabilization only, they cannot perform many of the functions of cooperatives. An order cannot assure that a market will be found for every producer's milk at all times. It cannot secure the most economical utilization of milk. Nor can it perform many of the other marketing functions such as procurement of supplies, economical transportation of milk and other services which are among the normal functions of milk producers' associations.

16. Does a marketing order guarantee an adequate income to all farmers?

No. It is not possible under a market order to guarantee an adequate income to all farmers, nor would it be possible under some circumstances

even to guarantee an adequate income to any of the farmers selling in a regulated market. A marketing order provides prices which will result in an adequate supply of pure and wholesome milk for the marketing area, and it prevents prices from fluctuating wildly without regard to general economic conditions.

In times of depressed prices for milk and dairy products, or for agricultural products generally, the prices established under a marketing order (that would result in an adequate supply of milk for the market) may not be high enough to afford adequate incomes to any of the farmers delivering milk to the regulated market. If farmers are to have adequate incomes under conditions of generally depressed prices, additional programs, such as price support measures, may be necessary.

17. Are milk handlers required to buy from certain farmers?

No. The milk order does not require a milk handler to purchase milk from any group of farmers or to purchase milk in any specified quantities. All it requires is that the milk handler conform to the requirements of the order in paying for the milk he buys.

18. What is a milk marketing agreement?

It is an agreement entered into by milk dealers and the Secretary of Agriculture. Although they are authorized by the Agricultural Marketing Agreement Act they very rarely are issued. A marketing agreement may be issued separately or in conjunction with an order. In the latter case the marketing agreement would be in terms identical with those of the order. If a marketing agreement without an order were to be issued, the terms need not be limited to those specified for orders; the terms provided, however, must be of a kind which would tend to effectuate the policy of the act.

Marketing agreements, either with or without an order, may be issued if more than 50 percent of the handlers or handlers of more than 50 percent of the milk to be regulated sign the agreement. Inasmuch as the marketing agreement is binding only on those handlers who sign it, it has not been used as a means of regulation and, as a matter of fact, the requisite number of handlers in a market seldom sign such an agreement. Orders, therefore, are the primary means of regulating milk markets.

19. Are orders adapted to individual market conditions?

Yes. The Agricultural Marketing Agreement Act of 1937 provides for flexibility in meeting the problems of individual markets. Because orders are issued for individual markets it is generally possible to make adaptations to local conditions. The standard with regard to prices to be fixed

in an order requires that the prices be such as to result in an adequate supply of pure and wholesome milk in the particular market to which the order applies. Other terms of the orders are equally adaptable to local conditions.

20. <u>May an order be issued for any market?</u>

Yes, if it can be shown that (1) the handling of milk is in the current of interstate commerce or where such handling burdens, obstructs, or affects interstate commerce in milk, and (2) where it is apparent that marketing or price conditions are such that an order is necessary or feasible to correct such conditions.

Because of the complex and specialized nature of a milk order, it is not generally possible to issue one in less than several months' time. In small markets the cost of such a program in relation to the volume of business transacted may not warrant a marketing order.

21. <u>How is action on establishing an order first started?</u>

An order is generally initiated when dairy farmers, through their cooperative associations, petition the Secretary of Agriculture to undertake the regulation of milk prices in a local marketing area. Upon receiving such a petition the Secretary orders a preliminary investigation of the facts and circumstances in the market which might indicate the need and feasibility of issuing a marketing order.

If it appears from the preliminary investigation that an order might be necessary and feasible and might tend to effectuate the declared policy of the Agricultural Marketing Agreement Act a notice of public hearing is issued. At the hearing all interested parties including producers, consumers, and milk dealers, are given an opportunity to present facts and views on the necessity of establishing an order and on the particular provisions which an order should contain.

22. <u>What are the procedures to be followed before an order can be issued?</u>

In addition to the petition, preliminary investigation, and hearing mentioned above, it is necessary for the Assistant Administrator of the Production and Marketing Administration, United States Department of Agriculture, to issue a so-called "recommended decision and order." The recommended decision and order are based upon the facts presented at the public hearing. It represents a preliminary statement of the reasons for the issuance of an order. It also outlines a recommended order and gives reasons for each of the terms contained in it.

This recommended decision and order are published in order to obtain the widest possible distribution of information to farmers and the public. A period of time (usually about 20 days in the case of newly

initiated orders) is allowed for interested persons to review the recommended order and to file exceptions.

The purpose of the recommended decision and order is, therefore, to give interested persons a preliminary view of the terms and conditions of the proposed order and the reasons behind them. In this way these persons may make further suggestions regarding the terms of the order before its final issuance.

The views and comments are reviewed and any changes in the order which seem necessary or desirable are made. Thereupon a final decision and final order are issued by the Secretary of Agriculture. These are presented to dairy farmers who are given an opportunity to vote on whether or not the order will be made effective. The law provides, if the order contains a market-wide pool, that at least two-thirds of the producers selling milk in the marketing area must approve the final order before it may be issued. A favorable vote by three-fourths of the producers is necessary if the order provides for individual handler pools.

23. Why are these procedures necessary in establishing an order?

The marketing of fluid milk is a very complex business. It has important repercussions on dairy farmers, milk dealers, and the general public. In a democratic society it is imperative that protection be afforded to all affected groups when any action of government is contemplated. In order to assure this protection procedural safeguards of notice, hearing, recommended decision, final decision, producer approval, and final notice of the issuance of an order are necessary.

24. What groundwork must be laid before an order is issued?

Facts relating to general economic conditions, to prices, supplies and sales of milk, and information regarding the extent to which the handling of milk in the proposed marketing area is in the current of interstate commerce or directly burdens, obstructs, or affects interstate commerce, must be obtained. The need for an order and the conditions which will be corrected or relieved by the order, also must be explained.

All of this material must be presented at a public hearing. Consequently, it is necessary that witnesses be prepared to present such information at the hearing. Adequate preparation of testimony as to facts and conditions upon which an order may be issued generally requires the services of experts in marketing, economics and statistics. Moreover, when a petition is made to the Secretary to institute an order in a market which has not been under regulation, it is usually required that a proposed Federal order be furnished. This would set forth in detail all of the terms and conditions which, in the opinion of the proponents, are

necessary or desirable for incorporation into the final order. The drafting of such a proposed order usually requires expert help from marketing specialists.

The laying of detailed groundwork for a hearing is essential because a marketing order is an instrument of regulation designed to deal with a complex and highly organized industry. It may have important effects on milk producers, milk dealers, and milk consumers. Moreover, it is necessary that each provision of an order be based upon facts presented at a public hearing.

25. Does the Government provide any help in laying the groundwork?

It is not ordinarily possible for the Department of Agriculture to furnish personnel directly for the purpose of obtaining necessary background facts and information or for the purpose of drafting a proposed order for a new market. Within the limits of its personnel, the Department endeavors to furnish advice regarding the types and kinds of information which will be necessary and possible sources for securing it. It is also possible to furnish personnel for consultation with interested parties from time to time. Expert non-governmental help to assist in laying the ground-work for a Federal order is generally necessary.

Many Government agencies are able to contribute help in the preparation for a hearing. State Departments of Agriculture, State extension and research workers, and Departments of Health frequently provide information which is necessary background for order purposes. Persons interested in developing the necessary material should communicate with these agencies for whatever help or information they can furnish.

26. How soon after a petition is entered will an order be issued?

The time between the receipt of a petition for an order and its issuance varies greatly. It depends upon the availability of background information, the difficulties of the problems to be dealt with, the adequacy of the proposed order which accompanied the petition, and the availability of personnel in the Department to deal with it. Under most favorable circumstances, orders cannot generally be issued in less than 5 months after the receipt of a petition.

27. How are orders changed after they have been issued?

Whenever the possibility of improvement or changed circumstances require it, milk orders are changed by amendment. Approximately the same procedures are used in changing milk orders as are used when the orders are issued.

In the case of amendments to orders already issued, procedures may be somewhat shortened because of a shorter length of time for notice of hearing and exceptions to recommended decisions. The volume of analytical and review work may be smaller also.

28. Can orders be voted out after being in effect?

Yes. A milk marketing order must be rescinded when the Secretary of Agriculture determines that more than 50 percent of the dairy farmers or those delivering more than 50 percent of the milk to the market favor the termination of the order. It also may be rescinded if the Secretary finds that the order either obstructs or does not tend to effectuate the declared policy of the Agricultural Marketing Agreement Act.

29. In what way is the approval of dairy farmers determined?

The Secretary is authorized to conduct a referendum among dairy farmers for the purpose of getting their approval or disapproval of a milk order. In the case of establishing new orders, the referendum method is always used. Cooperative associations are entitled to vote their whole membership as one unit.

When it is necessary to ascertain dairy farmers' views after an order has been issued, the referendum method is sometimes dispensed with if the necessary farmer approval can be clearly shown from the unit votes of organized producers.

30. What is the meaning of terms used in Federal orders?

a. Producer?

A producer is a dairy farmer who is entitled to the protection and benefits of a milk order because of the fact that he sells "approved" milk to handlers in a regulated market.

b. Handler?

A handler is a milk dealer or milk distributor who is subject to a Federal order because he purchases "approved" milk from producers or disposes of it in a regulated market area.

c. Minimum price?

A minimum price is a price fixed under a Federal order below which handlers cannot go in paying producers for milk. Only minimum prices may be set under an order. Handlers may pay higher prices if they choose.

d. Basic price?

A basic price is a price which represents the general value of milk when converted into dairy products sold on the national market. It is used in pricing formulas in which differentials are added to the basic price to obtain the Class I price for milk in a local marketing area. In general it is made up of two or three alternative means of pricing. It may include a combination of (1) prices paid to producers at specified manufacturing plants, (2) a price based upon the value of butter and cheese, or (3) a price based upon the value of butter and nonfat dry milk solids.

e. Marketing area?

A marketing area is a designated trading area within which the handling of milk is regulated by the Federal order. Generally all milk dealers who handle or sell milk in the designated marketing area are subject to the regulation of the Federal order applicable in that area.

f. Individual handler pool?

Because prices for milk are fixed on the classified use basis, it is necessary to have a device for paying individual producers a uniform or average price for the milk they deliver to a milk handler. If a minimum average price is calculated on the basis of each handler's use and receipts of milk, the market is said to have individual handler pools. Under this system, farmers selling to different handlers may have different minimum average prices.

g. Market-wide pool?

If the minimum average price is calculated on a market-wide basis, combining into one total the utilization of all handlers and the total receipts from all producers in the market, the market is said to have a market-wide pool. By this arrangement all producers receive the same uniform price for the milk they deliver irrespective of the handler to whom it is delivered. Because of the different utilizations of handlers it is necessary for the market administrator to maintain a producer-settlement fund for the purpose of equalizing payments among various handlers.

h. Surplus milk?

The term "surplus milk" is frequently a misnomer. It is often applied to milk which is not used as Class I milk in the marketing area. Because an adequate and dependable supply of milk for consumers requires the maintenance of a necessary reserve, all milk which is not used in fluid form should not be considered as surplus. A surplus arises in a market only when the quantity of milk delivered exceeds the quantity of milk sold in fluid form by an amount which is greater than the necessary reserve. And it can be considered "surplus" only when this condition continues for a long enough period so that it appears that the excess is likely to be permanent.

Quantities of milk which are not used as Class I but are necessary for a reliable supply of milk are better designated as an "operating reserve" or "necessary reserve." This would include as well the quantities of milk in excess of Class I use which result from normal seasonal variation in deliveries of milk.

31. Where are Federal orders now operating?

There were 37 milk orders in effect May 1, 1950, most of them in the eastern half of the United States. The milk marketing areas to which they apply are:

Boston, Mass.
Chicago, Ill.
Cincinnati, Ohio
Cleveland, Ohio
Clinton, Iowa
Columbus, Ohio
Dayton-Springfield, Ohio
Dubuque, Iowa
Duluth-Superior (Minn.-Wis.)
Fall River, Mass.
Fort Wayne, Ind.
Kansas City, Mo.
Knoxville, Tenn.
Lima, Ohio
Louisville, Ky.
Lowell-Lawrence, Mass.
Minneapolis, Minn.
Nashville, Tenn.
New Orleans, La.
New York City
Oklahoma City, Okla.
Omaha-Council Bluffs (Nebr.-Iowa)
Paducah, Ky.
Philadelphia, Pa.
Quad Cities (Davenport and Bettendorf, Iowa - Rock Island and Moline, Ill.)
Rockford-Freeport, Ill.
St. Louis, Mo.
Sioux City, Iowa
South Bend-LaPorte, Ind.
Springfield, Mass
Suburban Chicago, Ill.
Toledo, Ohio
Topeka, Kans.
Tri-State (Vicinities of Ashland, Ky.-Huntington and Parkersburg, W. Va. - Marietta, Ironton and Gallipolis, Ohio
Tulsa, Okla.
Wichita, Kans.
Worcester, Mass.